

MANISTEE COUNTY TRANSPORTATION, INC.

MANISTEE COUNTY, MICHIGAN

AUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

MANISTEE COUNTY TRANSPORTATION, INC.
MANISTEE, MICHIGAN
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Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Manistee County Transportation, Inc.	County Manistee
Audit Date 9/30/05	Opinion Date 1/5/06	Date Accountant Report Submitted to State: 1/21/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

Kalcher, Vanderwal & Torrey, P.C.

Street Address 475 Water Street	City Manistee	State MI	ZIP 49660
Accountant Signature <i>Kalcher, Vanderwal & Torrey, P.C.</i>		Date	

**KALCHER
VANDERWAL
& TORREY, P.C.**

DALE L. VANDERWAL, C.P.A.
LEE W. TORREY, C.P.A.
JOHN A. SPRATTO, C.P.A.
DAVID L. RICHARDS, C.P.A., A.B.V.

CERTIFIED PUBLIC ACCOUNTANTS

TRAVERSE CITY
MANISTEE

Of Counsel:
LEONARD R. KALCHER, C.P.A.

INDEPENDENT AUDITOR'S REPORT

January 5, 2006

Board of Directors
Manistee County Transportation, Inc.
180 Memorial Drive
Manistee, Michigan 49660

We have audited the financial statements of Manistee County Transportation, Inc. (a non-profit Michigan Corporation) as of and for the year ended September 30, 2005, as listed in the Table of Contents. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Michigan Department of Treasury "Audit Guide for Transportation Authorities and Agencies in Michigan." Those standards, and audit guide, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared in conformity with the accounting practices prescribed or permitted by the Michigan Department of Treasury "Audit Guide for Transportation Authorities and Agencies in Michigan," which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Manistee County Transportation, Inc., at September 30, 2005, and the results of its operations and the changes in financial position for the year then ended, in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2006, on our consideration of Manistee County Transportation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Manistee County Transportation, Inc. taken as a whole. The accompanying supplemental material presented in Schedules 1 through 7 has been subjected to the audit procedures applied in connection with our audit of those financial statements. This information, while not considered necessary for the fair presentation of the financial statements, results of operations and changes in financial position of the corporation, is, in our opinion, fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

Kalcher, Vanderweide & Toney, P.C.

Certified Public Accountants

MANISTEE COUNTY TRANSPORTATION, INC.
BALANCE SHEET
SEPTEMBER 30, 2005

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 398,644
Accounts Receivable	21,318
Property Taxes Receivable	212,088
Grants Receivable	44,570
Prepaid Expenses	12,638
Inventories	<u>3,217</u>
Total Current Assets	<u>\$ 692,475</u>

Property, Plant & Equipment

Land	\$ 55,038
Vehicles	2,509,942
Equipment	241,982
Leasehold Improvements	<u>80,459</u>
	\$ 2,887,421
Less: Accumulated Depreciation	<u>(1,699,875)</u>
Net Property, Plant & Equipment	<u>\$ 1,187,546</u>

Other Assets

Deferred Compensation Plan Assets	<u>\$ 358,710</u>
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TOTAL ASSETS	<u><u>\$ 2,238,731</u></u>
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LIABILITIES AND FUND EQUITY

Current Liabilities

Accounts Payable	\$ 14,510
Grants Payable	141,491
Accrued Salaries and Wages	22,759
Various Payroll Withholdings	562
SEP/IRA Contributions Payable	<u>14,365</u>
Total Current Liabilities	<u>\$ 193,687</u>

Long-term Liabilities

Compensated Absences	\$ 51,525
Deferred Compensation	<u>358,710</u>
Total Long-term Liabilities	<u>\$ 410,235</u>

Total Liabilities	<u>\$ 603,922</u>
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Fund Equity

Contributed Capital:

State of Michigan	\$ 224,840
Federal Government	<u>904,266</u>
Total Fund Equity	<u>\$ 1,129,106</u>

<u>Retained Earnings</u>	<u>\$ 505,703</u>
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Total Fund Equity and Retained Earnings	<u>\$ 1,634,809</u>
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TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 2,238,731</u></u>
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The notes to the financial statements are an integral part of these statements.

MANISTEE COUNTY TRANSPORTATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

<u>Operating Revenues:</u> (Schedule 1)		\$	275,305
<u>Operating Expenses:</u> (Schedule 2)			<u>(1,427,603)</u>
<u>Operating Loss</u>		\$	<u>(1,152,298)</u>
<u>Non-Operating Revenues</u>			
Local (Schedule 3A)	\$	305,837	
State and Federal (Schedule 3B)		<u>618,106</u>	<u>923,943</u>
<u>Net Loss</u>		\$	(228,355)
<u>Add</u>			
Depreciation on Fixed Assets Acquired by Grants, Entitlements, and Shared Revenues Restricted for Capital Acquisition		\$	<u>316,792</u>
<u>Increase in Retained Earnings</u>		\$	88,437
<u>Retained Earnings</u> - October 1, 2004	\$	420,737	
Prior Period Adjustments		<u>(3,471)</u>	
<u>Adjusted Retained Earnings</u> - October 1, 2004			<u>417,266</u>
<u>Retained Earnings</u> - September 30, 2005		\$	<u><u>505,703</u></u>

The notes to the financial statements are an integral part of these statements.

MANISTEE COUNTY TRANSPORTATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Cash Flows from Operating Activities

Net Loss	\$ (228,355)
Adjustments to Reconcile Net Loss to	
Net Cash Provided by Operating Activities:	
Depreciation	321,467
Prior Period Adjustments	(3,471)
Decrease (Increase) In:	
Accounts Receivable	(1,450)
Property Taxes Receivable	(11,049)
Grants Receivable	68,910
Prepaid Expenses	(12,638)
Inventories	1,219
Increase (Decrease) In:	
Accounts Payable	(20,375)
Grants Payable	(20,836)
Accrued Payroll Liabilities	(12,803)
SEP/IRA Contributions Payable	14,365
Compensated Absences	1,440
Net Cash Used by Operating Activities	<u>\$ 96,424</u>
Net Increase in Cash	\$ 96,424
Cash and Cash Equivalents - Beginning of Year	<u>302,220</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 398,644</u></u>

The notes to the financial statements are an integral part of these statements.

MANISTEE COUNTY TRANSPORTATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

Note 1 – Description of Operations

Manistee County Transportation, Inc., was established March 3, 1975, as a Michigan non-profit corporation. The Company contracts with the County of Manistee, Michigan, to provide public transportation services to the residents of the County of Manistee, Michigan, under the joint auspices of the Urban Mass Transportation Division of the Federal Department of Transportation and the Michigan Department of Transportation. The entity is governed by a seven (7) member board which in turn appoints the executive director.

Note 2 – Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies of Manistee County Transportation, Inc.

Basis of Accounting

The accrual basis method of accounting is followed by Manistee County Transportation, Inc. The accrual basis provides that revenues are recorded when earned and expenditures are recorded when the related liability is incurred.

These financial statements are prepared under accounting principles prescribed by the Michigan Department of Treasury "Audit Guide for Transportation Authorities & Agencies in Michigan." This guide requires that federal, state and local capital grant money received be classified as contributed capital on the Balance Sheet. Under Generally Accepted Accounting Principles, grant money received would be classified as revenue on the Statement of Revenues, Expenses and Changes in Retained Earnings.

Inventories

Inventories of replacement parts are valued at the lower of cost or market using the first-in, first-out method. Office supplies are expensed when purchased and therefore are not included in inventories.

Property, Plant & Equipment and Depreciation

Land is shown at cost.

All vehicles are shown at cost. Depreciation is computed on the straight-line method with useful lives of three (3) years for the passenger buses and vehicles and seven (7) years for the metro buses.

Leasehold improvements and equipment are shown at cost. Depreciation is computed on the straight-line method with useful lives of from three (3) to ten (10) years for equipment and ten (10) years for leasehold improvements in accordance with the Michigan Department of Transportation "Replacement Schedule for transit agencies."

MANISTEE COUNTY TRANSPORTATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

Note 2 – Summary of Significant Accounting Policies – continued

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents

For purposes of the statement of cash flows, the corporation considers all highly liquid investments with an original maturity of six months or less to be cash equivalents.

Advertising

The Corporation uses advertising to promote its operations. The cost of advertising is expensed as incurred. During the year ended September 30, 2005, advertising cost totaled \$2,496.

Note 3 – Concentration of Credit Risk

The carrying amounts of the corporation's deposits as reflected in the accounts of the banks (without recognition of checks written but not yet cleared or of deposits in transit) were \$418,276 at September 30, 2005, of which \$100,000 was covered by federal depository insurance and \$318,276 was uninsured and uncollateralized.

State statutes permit surplus public funds to be invested as follows:

- a. In bonds and other direct obligations of the United States or an Agency or instrumentality of the United States.
- b. In certificates of deposits, savings accounts, or depository receipts of a bank, but only if the financial institution complies with certain requirements included within the act.
- c. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- d. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- e. Mutual funds registered under the Investment Company Act of 1940, Title I Chapter 686.54 Stat.739, 15 U.S.C. 80a-1 and 80a-3 and 80a-4 with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

MANISTEE COUNTY TRANSPORTATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

Note 3 – Concentration of Credit Risk - continued

- f. Obligations described in subdivision 9(a) through (g) if purchased through an inter-local agreement under the Urban Cooperation Act of 1967, 1967 PA 7, MCL 124.501 to 124.512.
- g. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.11 to 129.118.
- h. Investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

Note 4 – Grants Receivable

At year end the corporation had grants receivable from Federal and State agencies as follows:

State Operating Assistance	\$ 31,194
Federal RTAP Program	222
Federal Operating Assistance	<u>13,154</u>
	<u>\$ 44,570</u>

Note 5 – Grants Payable

At year end the corporation had grants payable to Federal and State agencies as follows:

State Operating Assistance - Fiscal Year 2004	\$ 53,881
State Operating Assistance - Fiscal Year 2005	79,238
Federal Operating Assistance - Fiscal Year 2003	7,656
Federal Operating Assistance - Fiscal Year 2004	695
Federal Operating Assistance - Fiscal Year 2005	<u>21</u>
	<u>\$ 141,491</u>

Note 6 – Deferred Compensation Plan

Manistee County Transportation, Inc. offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all permanent employees and to those independent contractors who are performing services for the corporation, permits them to defer a portion of their salary until future years. The deferred compensation is not available to the plan participants until termination, retirement, death or unforeseeable emergency.

MANISTEE COUNTY TRANSPORTATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

Note 6 – Deferred Compensation Plan – continued

All assets and income of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries.

The plan assets are displayed in the financial statements. Further, the plan is administered by Manistee County Transportation, Inc.

A summary of the plan for the year ended September 30, 2005 is as follows:

Balance - September 30, 2004	\$ 479,083
Employee Contributions	1,376
Employer Contributions	35,747
Net Investment Gain	48,417
Payments to Eligible Participants	<u>(205,913)</u>
Balance - September 30, 2005	<u>\$ 358,710</u>

Investments in the plan are reported at market. Market value of the investment portfolio at September 30, 2005 and 2004 was \$ 358,710 and \$ 479,083 respectively.

Manistee County Transportation, Inc. does not use derivative instruments or products in their deferred compensation plan investment portfolio.

Note 7 – Commitments

The physical premises occupied by Manistee County Transportation, Inc. are owned by the County of Manistee. The deed states that the building is to be used exclusively by Manistee County Transportation, Inc. There is currently no lease cost incurred for the use of the building however, Manistee County Transportation, Inc., is responsible for the operation and maintenance of the building.

The property was originally purchased in 1979 by the County of Manistee with a grant from the Michigan Department of Transportation (MDOT). Under the terms of the grant the property is to be used exclusively for public transportation with MDOT retaining it's proportionate interest in the property in the event the property is sold or ceased to be used for public transportation.

Note 8 – County Tax Levy

Manistee County voters approved a five year mileage request in 1996 which provides a tax levy of .33 mills based on the County equalized valuation to be used for the operations of Manistee County Transportation, Inc.

In August 2002 this mileage was renewed by the Manistee County voters for a five year period covering the years 2002 through 2006.

MANISTEE COUNTY TRANSPORTATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

Note 9 – Contingent Liability

In 1996, TES Filer City Station (Tondou) a Manistee County taxpayer, filed a petition with the Michigan Tax Tribunal contesting the 1993, 1994, 1995 and 1996 assessed value, State equalized value and taxable value of its industrial location in Filer Township, Manistee County, Michigan. Tondou has since contested the years 1997 – 2001. If this appeal would have been successful, all of the taxing jurisdictions which benefit from tax dollars generated by Tondou would have been required to pay back these funds and incur a loss of future revenue.

It has been estimated by the County's Equalization director that the potential revenue payback, would have resulted in Manistee County Transportation, Inc., returning \$74,543 for the years 1993 through 2001.

In January of 2004, the Michigan Tax Tribunal ruled against Tondou. The ruling is currently under appeal.

Note 10 – Vacation and Sick Leave

Vacation and Sick Leave accumulated during the year is recorded as current fringe benefit expense. As of September 30, 2005, the accumulated sick leave benefits computed for the employees of Manistee County Transportation, Inc., was \$51,525. Accumulated vacation pay included in accrued wages is \$12,113.

Full-time employees and part-time employees receive credit for six discretionary days on January first of each year. Beginning January 1, 1999, these days may not be carried over from one year to the next. Any accumulated discretionary days as of January 1, 1999 may be used, or kept, the same as in the past. However, beginning January 1, 1999 all days must be used in the year they are earned. An employee with an existing accumulation of discretionary days will have the option once each year, to convert any employer specified number of discretionary days to cash at 85% of current value. Employees receive one hundred (100%) percent of sick leave upon retirement or death.

All employees are entitled to vacation time off, with pay, during each year of employment. Holidays, discretionary days, and vacation days shall be deemed as days worked for vacation purposes. Vacation time allowed is based on years of service as follows:

<u>Years of Service</u>	<u>Vacation</u>
1 year but less than 3	1 week
3 years or more but less than 5	2 weeks
5 years but less than 8	3 weeks
8 or more years	4 weeks

Employees shall take vacation if the transportation schedule permits. If the schedule cannot accommodate the requested time off for the employees vacation, the employee shall receive vacation pay for all vacation time earned by December 31. Management may, at its discretion based on scheduling needs, grant employees who have less than one year of service, vacation time-off.

MANISTEE COUNTY TRANSPORTATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

Note 11 – Risk Management

Manistee County Transportation, Inc., is exposed to various risk of loss related to torts; theft of; damage to; and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Corporation is insured through the Michigan Municipal Risk Management Authority which is a public risk pool currently operating as a common risk management and insurance program for Michigan Municipalities. The Corporation pays an annual premium to the Michigan Municipal Risk Management Authority for its insurance coverage.

Note 12 – Informational Summary of Projected Revenues, Expenditures and Method of Financing Capital Projects

Manistee County Transportation, Inc. has prepared and made available for inspection, the informational summary of projected revenues, expenditures and capital projects costs recommended in section 15, subsection 1 (h), PA 1978, as amended, (MCIA 141 435) MSA 5.3228 (35) and as required in Act 51, 10e (1) (d) (vii).

Note 13 – Prior Period Adjustments

During the year ended September 30, 2005 the following adjustments were made to retained earnings as a result of settlements received on prior year contracts as follows:

State Operating Assistance -	
Fiscal Year 2000 Reconciliation	\$ 21,555
Fiscal Year 2001 Reconciliation	2,072
Fiscal Year 2002 Reconciliation	(27,734)
Fiscal Year 2003 Reconciliation	(6,574)
Fiscal Year 2004 Reconciliation	7,210
Net Prior Period Adjustments	<u>\$ (3,471)</u>

SUPPLEMENTAL
SCHEDULES

MANISTEE COUNTY TRANSPORTATION, INC.
OPERATING REVENUES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

SCHEDULE 1

Operating Revenues:

Demand-Response (Farebox)	\$ 274,455
Auxiliary Transportation Revenue	<u>850</u>
	<u>\$ 275,305</u>

MANISTEE COUNTY TRANSPORTATION, INC.
OPERATING EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

SCHEDULE 2

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total System</u>
<u>Labor</u>				
Operator's Salaries and Wages	\$ 289,513	\$ -	\$ -	\$ 289,513
Other Salaries and Wages	53,639	105,870	115,722	275,231
<u>Fringe Benefits</u>	209,541	62,958	51,086	323,585
<u>Services</u>	-	5,098	10,802	15,900
<u>Material and Supplies Consumed</u>				
Fuel and Lubricants	71,846	-	-	71,846
Tires and Tubes	348	-	-	348
Other Materials and Supplies	11,285	3,209	4,578	19,072
<u>Utilities</u>	-	-	23,024	23,024
<u>Casualty and Liability Costs</u>				
Premiums for Public Liability and Property Damage Insurance	-	-	81,055	81,055
<u>Licenses</u>	-	-	20	20
<u>Miscellaneous Expense</u>				
Travel and Meetings	-	-	5,461	5,461
Other Miscellaneous	-	-	1,081	1,081
<u>Depreciation and Amortization</u>	321,467	-	-	321,467
Total Expenses	<u>\$ 957,639</u>	<u>\$ 177,135</u>	<u>\$ 292,829</u>	<u>\$ 1,427,603</u>

MANISTEE COUNTY TRANSPORTATION, INC.
NON-OPERATING REVENUES - LOCAL
FOR THE YEAR ENDED SEPTEMBER 30, 2005

SCHEDULE 3A

<u>Gain on Sale of Assets</u>	<u>\$ 3,549</u>
<u>Local Operating Grants</u>	
Taxes - Manistee County	\$ 277,388
Revenue Sharing - Manistee County	11,824
Other Grant - Manistee County	<u>5,705</u>
Subtotal - Local Operating Grants	<u>\$ 294,917</u>
<u>Interest Income</u>	<u>7,371</u>
Total Non-Operating Revenues	<u><u>\$ 305,837</u></u>

MANISTEE COUNTY TRANSPORTATION, INC.
NON-OPERATING REVENUES - STATE AND FEDERAL
FOR THE YEAR ENDED SEPTEMBER 30, 2005

SCHEDULE 3B

State Operating Grants

Operating Assistance	\$ 479,644
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Federal Operating Grants

R-Tap	\$ 1,642
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D.O.T. Operating Grant - MDOT No. 2002-0063Z7/R1	136,820
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Total - Federal Operating Grants	\$ 138,462
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Total Non-Operating Revenues - State and Federal	\$ 618,106
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MANISTEE COUNTY TRANSPORTATION, INC.
SCHEDULE OF CONTRIBUTED EQUITY
FOR THE YEAR ENDED SEPTEMBER 30, 2005

SCHEDULE 4

	<u>Federal</u>	<u>State</u>	<u>Local Government</u>	<u>Total</u>
<u>Balance - October 1</u>	\$ 1,157,395	\$ 288,503	\$ -	\$ 1,445,898
Add:				
Grants Received	3,240	810	-	4,050
Deduct:				
Cost of Items				
Expensed - Under \$5,000	(3,240)	(810)	-	(4,050)
Depreciation of Assets				
Purchased from				
Contributed Equity	<u>(253,129)</u>	<u>(63,663)</u>	<u>-</u>	<u>(316,792)</u>
<u>Balance - September 30</u>	<u>\$ 904,266</u>	<u>\$ 224,840</u>	<u>\$ -</u>	<u>\$ 1,129,106</u>

MANISTEE COUNTY TRANSPORTATION, INC.
SCHEDULE OF CAPITAL CONTRCTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

SCHEDULE 5

<u>Grantor</u>	<u>Project #</u>	<u>Grant Period</u>	<u>Grant Amount</u>	<u>Amount Earned this Audit Period</u>	<u>Total Amount Earned</u>	<u>Total Remaining</u>
11/25/2003 To						
State of Michigan Dept. of Transportation	2002-0063-Z3	11/25/2006	\$ 60,000	\$ -	\$ 30,000	\$ 30,000
9/10/2004 To						
State of Michigan Dept. of Transportation	2002-0063-Z5	9/10/2007	\$ 36,408	-	\$ -	\$ 36,408
9/19/2003 To						
State of Michigan Dept. of Transportation	2003-0543	9/19/2006	\$ 661,260	-	\$ -	\$ 661,260
9/14/2004 To						
State of Michigan Dept. of Transportation	2002-0063-Z6	9/14/2007	\$ 47,500	4,050	\$ 11,181	\$ 36,319
				<u>\$ 4,050</u>		

MANISTEE COUNTY TRANSPORTATION, INC.
SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

SCHEDULE 6

	<u>R-Tap</u>	<u>Operations</u>	<u>Total</u>
Labor	\$ -	\$ 564,744	\$ 564,744
Fringe Benefits	-	323,585	323,585
Services	-	15,900	15,900
Material and Supplies	-	91,266	91,266
Utilities	-	23,024	23,024
Casualty and Liability Costs	-	81,055	81,055
Licenses	-	20	20
Miscellaneous	1,642	4,900	6,542
Depreciation	-	321,467	321,467
	<u>\$ 1,642</u>	<u>\$ 1,425,961</u>	<u>\$ 1,427,603</u>

MANISTEE COUNTY TRANSPORTATION, INC.
NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

SCHEDULE 7

	Federal Section 5311	State Operating Assistance
<u>Expenses</u>		
Labor	\$ 564,744	\$ 564,744
Fringe Benefits	323,585	323,585
Services	15,900	15,900
Materials and Supplies	91,266	91,266
Utilities	23,024	23,024
Casualty and Liability Costs	81,055	81,055
Licenses	20	20
Miscellaneous	6,542	6,542
Depreciation	321,467	321,467
Total Expenses	<u>\$ 1,427,603</u>	<u>\$ 1,427,603</u>
<u>Less: Ineligible Expenses</u>		
Bad Debt	\$ 472	\$ 472
Depreciation	316,792	316,792
R-Tap Reimbursements	1,642	1,642
Allocated Cost - Meeting Room	112	112
Audit Fees	5,200	-
Total Ineligible Expenses	<u>\$ 324,218</u>	<u>\$ 319,018</u>
<u>Net Eligible Expenses</u>	<u>\$ 1,103,385</u>	<u>\$ 1,108,585</u>
Maximum Section 5311 Reimbursement (12.40%)	<u>\$ 136,820</u>	
Maximum State Operating Assistance (Mandatory Floor)		<u>\$ 479,644</u>

**KALCHER
VANDERWAL
TORREY, P.C.**

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TRAVERSE CITY
MANISTEE

CERTIFIED PUBLIC ACCOUNTANTS

Of Counsel:
LEONARD R. KALCHER, C.P.A.

January 5, 2006

Board of Directors
Manistee County Transportation, Inc.
180 Memorial Drive
Manistee, Michigan 49660

As required by the Michigan Department of Transportation, schedules of mileage, vehicle hours and number of passengers transported for the year ended September 30, 2005, are included in this report. The accompanying supplemental information contained in schedules eight (8) and nine (9), for the year ended September 30, 2005, is presented for analytical purposes only and has been compiled by us from information that is the representation of management, without audit or review, and we accordingly do not express an opinion or any other form of assurance on such information.

Kalcher, Vanderwal & Torrey, P.C.

Certified Public Accountants

MANISTEE COUNTY TRANSPORTATION, INC.
MILEAGE DATA
FOR THE YEAR ENDED SEPTEMBER 30, 2005

SCHEDULE 8

	Public Transportation Mileage	Charter/School Bus Mileage	Demonstration Project Mileage
<u>Demand/Response</u>			
1st Quarter	73,973	-	-
2nd Quarter	84,400	-	-
3rd Quarter	79,401	-	-
4th Quarter	69,297	-	-
Total Operations	307,071	-	-

Note: Manistee County Transportation, Inc., operates all of its buses on a demand response basis.
There are no buses run on a strict line-haul basis.

The methodology used for compiling mileage has been reviewed by us and found to be an adequate and reliable method for recording vehicle mileage.

See Accountant's Compilation Report.

MANISTEE COUNTY TRANSPORTATION, INC.
PASSENGERS AND VEHICLE HOURS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

SCHEDULE 9

	1st <u>Quarter</u>	2nd <u>Quarter</u>	3rd <u>Quarter</u>	4th <u>Quarter</u>	Total <u>Operations</u>
<u>Demand - Response</u>					
Regular	8,960	9,408	9,641	8,924	36,933
Senior	2,902	2,346	2,508	3,272	11,028
Handicapped	7,108	7,490	7,070	5,317	26,985
Handicapped Senior	663	560	496	620	2,339
Total	<u>19,633</u>	<u>19,804</u>	<u>19,715</u>	<u>18,133</u>	<u>77,285</u>
 <u>Vehicle Hours</u>	 <u>4,772</u>	 <u>4,972</u>	 <u>4,706</u>	 <u>4,325</u>	 <u>18,775</u>

See Accountant's Compilation Report.

**KALCHER
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& TORREY, P.C.**

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

January 5, 2006

Board of Directors
Manistee County Transportation, Inc.
180 Memorial Drive
Manistee, Michigan 49660

We have audited the financial statements of Manistee County Transportation, Inc. for the year ended September 30, 2005, and have issued our report thereon dated January 5, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Manistee County Transportation, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Manistee County Transportation, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by

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employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving internal control over financial reporting that we have reported to the management of Manistee County Transportation, Inc. in a separate letter dated January 5, 2006.

This report is intended for the information of The Board of Directors, management and the Michigan Department of Treasury. However, this report is a matter of public record and its distribution is not limited.

Kalder, Vandewort & Toney, P.C.

Certified Public Accountants

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TRAVERSE CITY
MANISTEE

Of Counsel:
LEONARD R. KALCHER, C.P.A.

January 5, 2006

To the Board of Directors
Manistee County Transportation, Inc.
180 Memorial Drive
Manistee, Michigan 49660

In planning and performing our audit of the financial statements of Manistee County Transportation, Inc. for the year ended September 30, 2005, we considered the corporation's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are an opportunity for strengthening internal controls and operating efficiency. Our comments and recommendations regarding these matters are as follows:

Proper Year-End Cut-Off Procedures

We noted several checks written in October 2005 that were back dated to September 30, 2005. Although these checks were for expenses incurred as of September 30, 2005, proper cut-off procedures require these expenses to be accrued at year end and not be recorded by the back dating of checks.

We recommend that proper cut-off procedures be followed on a consistent basis.

Management Review of Monthly Bank Reconciliations

During our inquiries of management we became aware that management is not consistently reviewing the monthly bank reconciliations prepared by the accounting department.

Due to lack of segregation of accounting duties we recommend that the General Manager review the monthly bank reconciliations prepared by the accounting department. We also recommend that the General Manager initial the bank reconciliations to indicate that he has approved the reconciliations as prepared.

Trade Accounts Receivable and Payable Aged Trial Balances

Both the trade accounts receivable and trade accounts payable aged trial balances contain entries that are incorrect. In reviewing these incorrect entries, we were able to determine that they are for the most part the result of the incorrect coding in the accounting software program of payments to and from various governmental entities. This incorrect posting of these entries did not result in the material misstatement of the financial statements at September 30, 2005.

We recommend that the Organization take the steps necessary to correct the aged trial balances referred to above.

Accumulated Vacation and Sick Leave Hours

During our audit we noted that the accumulated vacation and sick leave hours reported on several of the employees pay stubs was incorrect.

We recommend that the vacation and sick leave hours be adjusted on a monthly basis to agree with the schedule kept by the accounting department. We further recommend that at year end the Organization obtain signed statements from each employee acknowledging their agreement with the accumulated hours as compiled by the accounting department.

Seniors and Handicappers Fare Structure

During our audit we noted that there was a period of several months where Manistee County Transportation, Inc. was not in compliance with the "one-half" fare requirement for seniors and handicappers. We further noted that upon discovering this oversight the management of the Organization brought it to the Board of Directors attention and it was corrected.

We recommend that whenever the fare structure is changed close attention be paid to the requirements for seniors and handicappers.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and recommendations with various personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

Sincerely,

Kalder Vandewort & Toney, P.C.

Certified Public Accountants